

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-012
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

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Audit Chief
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AUDIT REPORT NUMBER

#09-012

15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Jim Camp, President
Board of Directors
15th DAA, Kern County Fair
1142 South P Street
Bakersfield, CA 93307-3950

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 15th District Agricultural Association (DAA), Kern County Fair, Bakersfield, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 15th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In 2008 and 2007, we were unable to apply general auditing procedures without extensive effort to satisfy ourselves about the disclosed amount for Account #113, Cash in Bank – Operating (stated as \$87,116 in 2008 and as <\$6,124> in 2007) as reflected in the accompanying Statements of Financial Conditions. As of December 31, 2008 and 2007, detailed and accurate records to substantiate amounts represented as outstanding deposits and outstanding checks did not exist. The Fair could not provide us the supporting documentation to reconcile the bank balance with the balance in its general ledger.

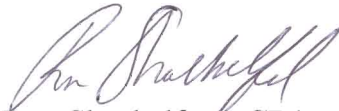
Because of the matters discussed in the third paragraph, in our opinion, except for the amount reported in Account #113, Cash in Bank – Operating, the 2008 and 2007 financial statements referred to above present fairly, in all material respects, the financial position of the 15th DAA, Kern County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then



ended, in conformity with accounting principles generally accepted in the United States of America.

The 15th DAA, Kern County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-012, on the 15th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 15th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", written in a cursive style.

Ron Shackelford, CPA
Chief, Audit Office

July 17, 2009

**15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Petty Cash & Change Funds	112	\$ 2,348	\$ 4,148
Cash - Operating	113	87,116	(6,124)
Cash - Premium	114	721	721
Cash - Payroll	115	8,246	3,299
Cash - LAIF	116	1,139,120	1,313,818
Accounts Receivable, Net	131	49,717	71,768
Deferred Charges	143	3,503	4,362
Equipment, Net	193	27,311	23,940
Leasehold Improvements, Net	194	5,145,425	5,225,681
TOTAL ASSETS		<u>6,463,507</u>	<u>6,641,613</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	66,024	23,313
Current Portion of Long Term Debt	212.5	82,702	40,999
Payroll Liabilities	221-227	(2,475)	3,943
Deferred Income	228	53,784	70,372
Compensated Absences	245	346,757	354,529
Long Term Debt	250	1,290,828	1,332,719
Total Liabilities		<u>1,837,620</u>	<u>1,825,875</u>
Net Resources			
Net Resources - Operations	291	826,681	898,836
Net Resources - Capital Assets, less Related Debt	291.1	3,799,206	3,916,902
Total Net Resources Available		<u>4,625,887</u>	<u>4,815,738</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 6,463,507</u>	<u>\$ 6,641,613</u>

**15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007**

REVENUE	Account Number	2008	2007
State Apportionment	311	\$ 20,000	\$ 40,000
Capital Project Funding - Photovoltaic, etc	312-340	58,895	1,086,209
Admissions	410	1,382,930	1,381,644
Commercial Space	415	268,934	281,941
Carnival	421	1,042,058	1,011,360
Concessions	422	708,724	661,384
Exhibits	430	82,875	82,598
Horse Show	440	-	56,650
Satellite Wagering	450	360,427	394,403
Attractions	460	34,515	43,016
Miscellaneous Fair	470	536,630	550,791
Non-Fair Revenue	480	1,065,829	1,094,393
Prior Year Adjustments - Revenue	490	17,254	17,926
Other Operating Revenue	495	29,190	60,396
Total Revenue		5,608,261	6,762,711
EXPENSES			
Administration	500	1,610,786	1,715,412
Maintenance and Operations	520	1,417,357	1,375,058
Publicity	540	202,051	197,358
Attendance	560	421,253	373,518
Miscellaneous Fair	570	142,710	141,649
Premiums	580	97,071	124,670
Exhibits	630	230,607	240,412
Horse Show	640	500	58,059
Satellite Wagering	650	292,237	326,787
Attractions - Fairtime	660	951,261	931,407
Interim Events	580	10,683	11,212
Equipment	723	30,326	63,080
Prior Year Adjustments - Expenses	800	87,453	53,407
Cash Over/Under	850	1,359	6,125
Depreciation Expense	900	290,462	279,016
Other Operating Expense	940	11,996	36,511
Total Expenses		5,798,112	5,933,681
RESOURCES			
Net Change - Income / (Loss)		(189,851)	829,030
Resources Available, January 1		4,815,738	3,986,708
Resources Available, December 31		\$ 4,625,887	\$ 4,815,738

**15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (189,851)	\$ 829,030
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	22,051.10	(3,702)
(Increase) Decrease in Other Prepaid Expenses	858.88	(251)
Increase (Decrease) in Accounts Payable	42,711.15	12,208
Increase (Decrease) in Current Portion LT Debt	41,702.72	40,999
Increase (Decrease) in Payroll Liabilities	(6,418.22)	1,300
Increase (Decrease) in Deferred Income	(16,587.97)	26,914
Increase (Decrease) in Compensated Absence Liability	(7,772.01)	17,391
Total Adjustments	<u>76,546</u>	<u>94,859</u>
Net Cash Provided (Used) by Operating Activities	<u>(113,305)</u>	<u>923,889</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	-	61,376
(Increase) Decrease in Equipment	(3,371)	7,100
(Increase) Decrease in Leasehold Improvements	<u>80,256</u>	<u>(2,457,901)</u>
Net Cash Provided (Used) by Investing Activities	<u>76,885</u>	<u>(2,389,425)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>(41,891)</u>	<u>1,332,719</u>
Net Cash Provided (Used) by Financing Activities	<u>(41,891)</u>	<u>1,332,719</u>
NET INCREASE (DECREASE) IN CASH	(78,311)	(132,817)
Cash at Beginning of Year	1,315,862	1,448,679
CASH - END OF YEAR	<u><u>\$ 1,237,551</u></u>	<u><u>\$ 1,315,862</u></u>

**15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 15th District Agricultural Association (DAA) was formed in 1925, for the purpose of sponsoring, managing, and conducting the Kern County Fair each year in Bakersfield, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Equipment and Leasehold Improvements – Construction-in-progress, land, leasehold improvements, and equipment, if any, are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as

vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash & Change Fund	\$ 2,348	\$ 4,148
Cash in Bank - Operating	87,116	(6,124)
Cash in Bank - Premium	721	721
Cash in Bank - Payroll	8,246	3,299
Cash in Bank - LAIF	<u>1,139,120</u>	<u>1,313,818</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 1,237,551</u></u>	 <u><u>\$ 1,315,862</u></u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2008</u>	<u>2007</u>
Accounts Receivable - Trade	\$ 62,153	\$ 81,398
Allowance for Doubtful Accounts	<u>(12,436)</u>	<u>(9,630)</u>
 Accounts Receivable - Net	 <u><u>\$ 49,717</u></u>	 <u><u>\$ 71,768</u></u>

NOTE 4 EQUIPMENT AND LEASHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Equipment	\$ 335,854	\$ 310,322
Less: Accumulated Depreciation	<u>(308,543)</u>	<u>(286,382)</u>
Equipment - Net	<u><u>\$ 27,311</u></u>	<u><u>\$ 23,940</u></u>
 Leasehold Improvements	 \$ 9,628,083	 \$ 9,437,870
Less: Accumulated Depreciation	<u>(4,482,658)</u>	<u>(4,212,189)</u>
Leasehold Improvements - Net	<u><u>\$ 5,145,425</u></u>	<u><u>\$ 5,225,681</u></u>

NOTE 5**LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project on the fairgrounds. In December 2007, CCA completed Photovoltaic Projects on the Grandstand, Bolthouse, Beef Barn, Satellite Wagering, and Maintenance buildings. The DAA recognized the long term debt of \$1,414,527 based on the Use Agreement from CCA, which includes estimated total soft costs of \$270,681 to refinance the existing loans with National City Commercial Capital Corporation (NCCCC). CCA is working on refinancing the existing loans from NCCCC with an interest rate of 5.15% over 10 years by the issuance of the Clean Renewable Energy Bonds (CREBs); thereby reducing the interest rate to 1.484% over 15 years. The DAA is making monthly loan payments of \$8,771 based on a Proforma provided in 2008 by CCA as if CREB financing were in place. As of this date, efforts to find buyers for CREB have met with no success.

The terms of the agreement are as follows:

CCA Photovoltaic Loan:

Loan Amount	\$ 1,414,529
First Payment Date	July 2008
Payment Amount	\$ 8,771
Duration of Loan	188 Months
Interest Rate	1.48%
Total Outstanding at 12/31/08	\$ 1,373,530
Current Portion at 12/31/08	\$ 82,702
Long-Term Portion at 12/31/08	\$ 1,290,828

NOTE 6**RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the

date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 15th DAA Board of Directors
1	Chief Executive Officer, 15th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA

MANAGEMENT REPORT #09-012

YEAR ENDED DECEMBER 31, 2008

15TH DISTRICT AGRICULTURAL ASSOCIATION
KERN COUNTY FAIR
BAKERSFIELD, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Jason Jones	Auditor
Hardeep Kaur	Auditor
Sophea Touch	Auditor

MANAGEMENT REPORT NUMBER
#09-012

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Jim Camp, President
Board of Directors
15th DAA, Kern County Fair
1142 South P Street
Bakersfield, CA 93307-3950

In planning and performing our audit of the financial statements of the 15th District Agricultural Association (DAA), Kern County Fair, Bakersfield, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Kern County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 15th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 15th DAA's assets. The system of internal control



should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 15th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 15th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 15th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 15th DAA and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the Fair's operations: bank account reconciliations, cash receipts, accounting for fixed assets, lack of internal controls over swap meet revenues, and sponsorship policies and procedures. We have provided thirteen recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 15th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

BANK ACCOUNT RECONCILIATIONS

A detailed examination of the Fair's bank reconciliations for its operating, premium, and payroll accounts identified the following internal control weaknesses that expose the Fair to loss:

- a. Due to the lack of supporting documentation, our office was unable to verify the amount as presented in the balance sheet at year-end for Account #113, Cash in Bank – Operating. The Fair's reconciliation is inadequate for auditing purposes. The Fair's bank reconciliation comprised of \$851,391 for deposits in transit and consisted of \$831,294 outstanding checks; however the Fair could not provide any verifiable supporting documentation to substantiate these amounts. Without a list of outstanding checks and deposits in transit, our office was unable to verify and test completeness of outstanding checks or trace deposits in transit. In addition, our office noted the Fair's bank balance on its reconciliation is different than the actual balance on the bank statement. Furthermore, the amount of cash presented in the Statement of Operations (STOP) is different than the amount listed in the general ledger.
- b. The Fair's bank reconciliations were not signed and dated by the preparer, and no evidence indicates when the reconciliations were reviewed and approved by the supervisor to ensure timeliness and accuracy. The operating bank account is crucial to Fair operations since all revenues generated and expenses incurred are processed through this account. An accurate bank reconciliation is essential for good internal controls as it provides a comparison of bank balances to accounting records, shows which checks are still outstanding, and ensures deposits and cleared checks agree with the general ledger. A bank account that cannot be reconciled to the general ledger is a red flag that could signal much larger problems with the amounts being posted in the general ledger, deposits, or outstanding checks. This is a prior year finding.
- c. Our office was unable to verify the amount as presented in the balance sheet at year-end for Account #114, Cash in Bank – Premium, and Account #115, Cash in Bank – Payroll. Bank reconciliations for the payroll account and premium account do not agree to the cash balances as presented in the STOP. Additionally, the bank reconciliations for these bank accounts were not signed and dated by the preparer, and no evidence indicates that the reconciliations were reviewed and approved by a supervisor to ensure timeliness and accuracy. This is a prior year finding.
- d. The Fair has outstanding checks of \$21,866 in its Premium and Payroll bank accounts that are dated from 2000-2007. According to the State Administrative Manual (SAM) Section 8042, uncashed checks for over one year can be reverted back to the appropriate cash accounts. Listing and tracking outstanding checks for more than one year complicates the reconciliation process and increases the chances for errors. This is a prior year finding.

Recommendations

1. *The Fair must make it a priority to reconcile the operating bank account as soon as reasonably possible. The Fair should start with the most recent month, determine the cause of the variance and make the necessary correcting journal entries to sufficiently reconcile the bank account.*
2. *The Fair should make it a priority to improve the condition of its financial records related to its bank accounts. All accounting errors and differences should be researched for their cause and corrected. Procedures governing bank accounts as specified in the Accounting Procedures Manual and good business practices should be followed when recording all financial transactions in the general ledger.*
3. *In the future, the Fair should ensure all bank reconciliations are completed for all bank accounts on a monthly basis. To prevent any ongoing errors, any material differences should be noted, researched for their cause in a timely manner, and corrected. In addition, the reconciliations should contain signatures from someone other than the preparer to ensure review of accuracy, completeness, and timeliness of the reconciliations occurred.*
4. *The Fair should maintain an accurate and verifiable account of its outstanding check amounts and amounts reported as deposits in transit for its operating bank account. Adequate documentation is crucial to the reconciliation and substantiation of cash amounts. When no clear trail exists, the Fair can have no certainty as to whether the amounts of available cash are properly safeguarded.*
5. *The Fair should research which checks have been outstanding for over a year and perform the reversion per SAM Section 8042 guidelines.*

CASH RECEIPTS

A detailed examination of the Fair's cash receipt records identified the following internal control weaknesses:

- a. Our office noted the Fair did not reconcile its cash receipts as noted as collected per the main receipt journal to amounts in general ledger at any time during 2008. The Fair exposes itself to a possibility of much larger problems by not reconciling its cash receipts to the general ledger. We tested three months of cash receipts, October-December 2008, and identified that the Fair erroneously recorded duplicate receipts and payments that did not exist, resulting in overstating its cash – operating and revenue accounts. From the three months tested, we found a total of \$34,425 that was recorded in the general ledger but could not be traced to the bank statement. Of the \$34,425, we identified \$24,023 was for payments that did not exist and \$10,402 was for payments recorded with duplicate cash receipt numbers. A discussion with the Fair's personnel revealed that false payments were entered to adjust its accounts receivable entries. The Fair should find alternative solutions to properly adjust its accounts receivable records.

Management Report #09-012

Bakersfield, California

- b. Our office noted instances where cash receipts were not in chronological sequence (for example, cash receipts #A23112-A23117 were used in January 2009, and A23118-A23122 were used in December 2008). Pre-numbered receipts should be used sequentially, accounted for, and maintained for controls and audit proposes. Utilizing cash receipts in sequential order helps controls, and prevents the possibility of misusing cash receipts, as well as assisting in the reconciliation and monitoring of cash receipts.
- c. The Fair did not properly cut off the cash receipting activity at December 31, 2008. Our office noted that cash and checks collected for revenue earned in January 2009 were recorded as being collected in 2008. Generally accepted accounting principles (GAAP) require the recognition of revenue within the period earned. If revenue has been earned, but not yet received, a receivable should be established for the amount due. This should be done prior to closing the accounting records and preparing the annual STOP. This is a prior year finding.

Recommendations

- 6. *The Fair should institute controls and procedures regarding cash receipts, including reconciling and summarizing its cash receipts on a consistent basis to ensure the accuracy of recording and accuracy of cash. Tracking and reconciling receipts on a consistent basis would help ensure all receipts are properly recorded in the general ledger as well as aid in the preparation of an accurate bank reconciliation.*
- 7. *The Fair must find other alternatives for reversing its account receivable entries rather than posting false payments. Recording false payments in the general ledger overstates the related cash and revenue accounts in the general ledger.*
- 8. *The Fair must ensure that cash receipt journals are properly cut off and closed at the end of the year. This process will improve internal controls by helping the Fair prepare the bank reconciliation as well as other financial reports that rely on the cash receipts register.*

ACCOUNTING FOR FIXED ASSETS

Although the Fair is making improvements in accounting for its fixed assets, as of December 31, 2008 our office noted there continue to be material errors and omissions within the Fair's accounting records for fixed assets. On its statement of operations and general ledger, the Fair reported a net book value (historical cost less accumulated depreciation) for Leasehold Improvements and Equipment of \$4,569,458 and \$124,242, respectively. However, these amounts do not agree to the Fair's detailed asset depreciation schedule that shows the net book values of Leasehold Improvements and Equipment at \$5,655,065 and \$34,094, a material difference of \$1,085,697 and \$90,147, respectively.

A closer examination by our office noted the amounts listed on the Fair's asset depreciation schedule appear to be a more accurate reflection of the Fair's fixed asset balances. However, our office further notes that even after using the asset depreciation schedule as the source document, the Fair did not include at least two projects totaling more than \$95,000, and

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improperly accounted for six other projects by approximately \$16,000. The differences were primarily due to the Fair not reconciling final project costs with the related project closeout sheets prepared by the California Construction Authority (CCA).

Although our office was able to make the necessary adjustments to fairly reflect the value of Leasehold Improvements and Equipment on the audited financial statements, the Fair is ultimately responsible for properly accounting for and reporting the value of its fixed assets.

Recommendations

9. *The Fair should improve the accounting and reporting of its fixed asset balances by ensuring it reconciles the balances reported in the general ledger for leasehold improvements and equipment to its detailed asset depreciation worksheets before preparation of the STOP. Any differences should be researched for their cause and corrected prior the submission of the annual STOP.*
10. *The Fair should make the necessary corrections to its asset depreciation schedules and corresponding journal entries to its general ledger as soon as reasonably possible to correctly account for its fixed assets. In the future, the Fair should reconcile the closed project reports from CCA to the Fair's asset depreciation schedule on an annual basis to ensure capital projects completed on the fairgrounds and placed in service are properly accounted for.*

LACK OF INTERNAL CONTROLS OVER SWAP MEET REVENUES

A detailed examination of the Fair's swap meet records identified the following internal control weaknesses that expose the Fair to loss:

- a. According to the Division of Fairs and Expositions (F&E) Contract Manual, DAAs are required to receive approval from F&E for contracts valued over \$75,000. Since the inception of the current contract on January 1, 2007, the annual revenue associated with this contract has not been below \$428,000, yet the Fair has not forwarded the contract to F&E for review and approval. Since F&E has not done the required review, the possibility exists that the contract language or terms are not in the best interest of the Fair or the State.
- b. Although the Fair has the contractual right to examine the swap meet contractor's records to establish validity of the reported revenues, the Fair has not appeared to have exercised its right. Amounts reported to the Fair as its portion of gross revenues on the weekly sheets were recorded into the Fair's general ledger without first establishing the accuracy. All weekly settlement sheets received from the swap meet contractor were not signed or reviewed to confirm the accuracy of the amounts reported.

Recommendations

11. *Although the contract period has already begun, the Fair should send its swap meet contract to F&E for sufficient review and approval. In the future, all contracts valued over \$75,000 should be sent with sufficient lead time to F&E for review and approval.*

12. To ensure that the Fair receives the total amount it is due, the Fair should maintain proper accountability for its revenues from its swap meet contractor. This requires that the Fair develop a written system of procedural controls, including custody and inventory of the tickets used to determine the Fair's percentage of sales from parking admissions and commercial space rentals. Ticket seller's report amounts should be verified, and both the Fair and the swap meet contractor should sign to attest to the review and accuracy of the amounts reported.

SPONSORSHIP POLICIES AND PROCEDURES

The Fair does not have established procedures for securing sponsorship revenues. During 2008, the Fair earned more than \$240,000 in sponsorship revenues. The F&E Contract Manual, Chapter 6 § 6.40, requires the DAA to follow all of the following steps to secure sponsorship agreements: a) establish the procedure, b) Board approves the procedure and maintains a copy in its contract office, and c) the DAA follows the approved procedures. It should be noted that although the DAA's sponsorship agreements generally are not subject to F&E approval, California Food and Agriculture code 4051.1(b) does require F&E notification of sponsorship agreements that exceed \$100,000 in value, have a term of over two years, or contemplate building a permanent structure on the property.

Recommendation

13. The Fair's Board of Directors should comply with F&E Contract Manual, Chapter 6 § 6.40 by establishing and approving procedures for sponsorship arrangements.

NON-REPORTABLE CONDITIONS

EMPLOYEE HOUSING

The Fair has a rental agreement with a permanent full-time civil service employee who provides lockdown services in exchange for a reduced rental rate on the fairgrounds. The agreement was improper because State employees are not allowed to represent themselves in a contract with the State. Public Contract Code (PCC) § 10410 states, “No officer or employee in the state civil service or other appointed state official shall engage in any employment, activity, or enterprise from which the officer or employee receives compensation or in which the officer or employee has a financial interest and which is sponsored or funded, by any state agency or department through or by a state contract unless the employment, activity, or enterprise is required as a condition of employment.”

The language that the Fair used to try and remedy the situation, “[Employee] will volunteer appropriate number of hours per month on days off locking buildings, checking gates turning on or off ground lights, collecting for RV/campers and horse stalls,” did not address the issue of the Fair contracting with a permanent employee.

Additional language, “Occupancy is for the convenience of the employer” and “the 15th District Agriculture Association has determined that the housing is non-taxable,” was used to address any tax issues. For housing to be considered tax free it needs to be on the business premises, for the convenience of the employer, and a condition of employment. Since the employee’s duty statement does not require the employee to live on the fairgrounds, the benefit does not meet the requirement for being tax free housing. If it is the intent of the Fair to document that the employee is required to live on the fairgrounds as a condition of employment, the Fair should simply document this on the employee’s duty statement.

Furthermore, the Fair should be aware of the overtime rights and pay that an employee of Bargaining Unit 15 is entitled to. Once the Fair makes the determination that living on the fairgrounds is a mandatory condition of employment, the Fair can no longer make the employee work extra hours without compensation.

Recommendations

The Fair should update the employee’s duty statement to include living on the premises as a requirement of employment.

The Fair should compensate the employee for extra hours worked, if any, as defined by the employee’s bargaining unit.

The Fair should comply with State laws governing civil service employees and not enter into any separate agreements with such represented employees unless the delegation of approval has been received from DPA and the related employee’s representing union.

ACCOUNTING FOR DEFERRED INCOME

At year-end, the Fair improperly accounted for \$18,134 in deferred revenue that was actually earned and received in January 2009. On its December 31, 2008 Statement of Operations, the Fair recognized all revenues collected from January 1, 2009 to January 5, 2009, totaling \$18,134, as deferred. By including deferred income collected in 2009, the Fair overstated its deferred revenue and cash accounts at year-end. According to generally accepted accounting principles, all revenues and expenses are recognized in the accounting period in which they are earned.

As illustrated above, the Fair did not use the proper cut-off date of December 31 for closing its financial records. All cash received and revenues earned after the financial statements end date are to be included in the next year's financial statements. Financial statements with a December 31 cut-off are meant to show the financial conditions of the Fair at year end. Including cash received after the end date in the Fair's financial statements causes the statements to not show an accurate picture of the financial health of the Fair.

Recommendations

The Fair should only place funds collected in deferred income when they are collected during the year for a subsequent year's activities.

The Fair should ensure it uses December 31 as the cut-off date for closing its accounting period and preparing the year-end financial statements.

NEPOTISM

The Fair allowed nepotism to exist among employees during the year. Our office noted that one permanent Fair employee supervised his two sons. The immediate family members were hired by the Fair as temporary employees. The Accounting Procedures Manual (APM) § III, 4.2, Nepotism, and CDFA Procedural Circular II-20 prohibit direct supervision of any employee - permanent, temporary, or seasonal - with whom a supervisor has a personal relationship. Although it may be appropriate for individuals who have a personal relationship to work in the same location, it is important that these arrangements do not violate the requirements of separation of duties.

Recommendation

The Fair should prohibit employees from having direct supervision of any individuals with whom a personal relationship exists. At a minimum, the employees should report to someone other than a family member for the purpose of segregation of duties.

FOOD AND BEVERAGE EXPENDITURES

Upon reviewing expenditures, our office noted an instance where the Fair did not adequately support or justify expenditures incurred for food and beverages in accordance with State policy and policy identified in the F&E APM. The Fair entered into an agreement with a contractor to provide catered dinners to the Board of Directors and guests. The cost of this dinner totaled more than \$7,000 and was paid for by using state funds. Although the Fair

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attempted to identify all recipients of the meal, our office noted the Fair could only identify 308 guests out of 519 attendees of the annual dinner who were provided a meal. In addition, the Fair did not justify the expenses by identifying the topics discussed, thereby demonstrating the benefits expected to accrue to the Fair. According to the APM, claims for payment of promotional or public relations expenses must include the names of all recipients of the item or benefit and the purpose of the expenditure. A claim must justify providing food or the benefit expected to accrue to the Fair by entertaining State officials, patrons, or others at a restaurant, hospitality booth, or elsewhere.

Recommendation

The Fair should improve its accounting over food and beverage expenditures by ensuring written justification and attendance logs are maintained for the individuals being entertained. This supporting documentation will help the Fair justify the business purpose of providing such food and beverages during the event by specifying the benefit expected to accrue to the Fair.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



15th DISTRICT AGRICULTURAL ASSOCIATION

1142 South P Street • Bakersfield, CA 93307 • 661.833.4900
www.kerncountyfair.com • Fax 661.836.2743

January 7, 2010

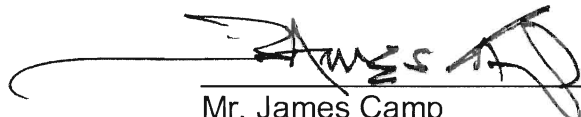
Mr. Ron Shackelford, CPA
CDFA Audit Office
2041 Capitol Avenue, Suite 107
Sacramento, CA 95811

Re: 2008 Audit Response Transmittal

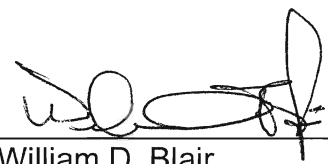
Dear Ron:

Enclosed please find the response we are making to Management Report #09-012 for the year ended December 31, 2008. If you have any questions or comments, please don't hesitate to contact me.

Sincerely,



Mr. James Camp
President, Board of Directors



William D. Blair
Chief Executive Officer

cc: Division of Fairs and Expositions

**15th District Agricultural Association
Kern County Fair
2008 Audit
Management Report #09-012
Management Response to the Reportable Conditions**

⌘ **CEO comment/statement**

In February, 2009, the Deputy General Manager retired. He was the management staff responsible for implementing the changes found in the audit findings. Unfortunately, some prior year finding changes were not implemented. These have and will be corrected for future years as the CEO has taken over responsibility of the financial aspect of the Kern County Fair.

⌘ **Bank Account Reconciliations**

Recommendations

- 1) The Fair must make it a priority to reconcile the Operating bank account as soon as reasonably possible.

Response - The Accounting staff will begin the Operating Account reconciliation immediately after the preparation of the monthly financial statements and move to the payroll account reconciliation, followed reconciling the LAIF account and the two premium accounts. The reconciliations will be completed by the end of week three each month and any adjusting journal entries can be prepared for the current month end closing of the books. All bank reconciliations will be reviewed, approved and the completion of the report will be given to the CEO.

- 2) The Accounting Procedures Manual and good business practices should be followed when recording financial transactions related to its bank accounts.

Response - The accounting staff has been trained in the appropriate sections of the Accounting Procedures Manual and the documentation for Journal Entries will be standardized.

- 3) The Fair should ensure all bank reconciliations for all accounts are completed on a monthly basis.

Response - All bank reconciliations will be completed monthly, in a timely manner.

- 4) The Fair should maintain an accurate and verifiable account of its outstanding check amounts and amounts reported as deposits in transit for its operating bank account.

Response – The fair utilizes the nQative (formerly CompuShare) Accounts Payable system provided by CFSA. The system's reports are printed each time transactions are entered. In addition, the Brinks Armored Car Service signs a log book for all deposits transported to Bank of America. The Fair's B of A accounts are all on-line and are accessed daily by the Chief Executive Officer and Accounting personnel to determine the account balances.

- 5) The Fair should research which checks have been outstanding for over a year and perform the reversion per SAM Section 8042 guidelines

Response - During the year-end reconciliations, a review will be made to determine any checks outstanding for over 12 months for reversion per SAM Section 8042. This review will become standard practice each month.

Cash Receipts

- 6) The Fair should institute controls and procedures regarding cash receipt, including reconciling and summarizing its cash receipts on a consistent basis to ensure the accuracy of recording and accuracy of cash. Tracking and reconciling receipts on a consistent basis would help ensure all receipts are properly recorded in the general ledger as well as aid in the preparation of accurate bank reconciliation.

Response – Staff is researching a solution that will fit within the parameters of our current accounting software. The solution is imminent.

- 7) The Fair must find other alternatives for reversing its account receivable entries rather posting false payments. Recording false payments in the general ledger overstates the related cash and revenue accounts in the general ledger.

Response – Staff has corrected this issue.

- 8) The Fair must ensure that cash receipt journals are properly cut-off and closed at the end of the year. This process will improve internal controls by helping the Fair prepare the bank reconciliation as well as other financial reports that rely on the cash receipts register.

Response – The fair is now properly cutting of the cash receipts at the end of the year

‡ Accounting for Fixed Assets.

- 9) The Fair should improve the accounting and reporting of its fixed asset balances by ensuring it reconciles the balances reported in the general ledger for leasehold improvements and equipment to its detailed asset depreciation worksheets before preparation of the STOP.

Response – Staff has been directed to reconcile the balances in the GL to the detailed depreciation worksheets prior to STOP preparation

- 10) The Fair should make the necessary corrections to its asset depreciation schedules and corresponding journal entries to its general ledger as soon as reasonably possible to correctly account for its fixed assets. The Fair should reconcile on an annual basis.

Response – Reconciliation will happen on an annual basis and corrections to asset depreciation schedules and corresponding journal entries will be made in a timely manner.

‡ Lack of Internal Controls Over Swap Meet Revenues

- 11) Although the contract period has begun, the Fair should send its swap meet contract to F&E for sufficient review and approval. In the future, all contracts valued over \$75,000 should be sent with sufficient lead time to F&E for review and approval.

Response – The Fair has forwarded a copy of the contract to F&E for review and will adhere to the proper guidelines concerning contracts valued over \$75,000.

- 12) To ensure that the Fair receives the total amount it is due, the Fair should maintain proper accountability for its revenues from its swap meet contractor.

Response – The Fair has implemented a process for sales verifications. A written system of procedural controls is being developed to assure the Fair is receiving the appropriate amount of revenues that are due.

‡ Sponsorship Policies and Procedures

- 13) The Fair's Board of Directors should comply with the F&E Contract Manual, Chapter 6 § 6.40 by establishing and approving procedures for sponsorship agreements.

Response – The Fair is in the process of establishing and approving the procedures for sponsorship agreements.


CDDA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 15th DAA, Kern County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between July 6, 2009 and July 17, 2009. My staff met with management on July 17, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

July 17, 2009

REPORT DISTRIBUTION

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